

Accumulation of income; titleholding corporation. An exempt title-holding corporation may retain part of its income each year to apply to indebtedness on property to which it holds title; the transaction will be treated as if the income had been turned over to the exempt parent and the latter had used such income to make a capital contribution to the titleholding corporation which, in turn, applied such contribution to the indebtedness; Rev. Rul. 67-104 superseded in part and obsoleted in part.

'The purpose of this Revenue Ruling is to update and restate the position set forth in Rev. Rul. 67-104, 1967-1 C.B. 120, with respect to section 501(c)(2) of the Internal Revenue Code of 1954.

'Advice has been requested whether a corporation which is exempt from Federal income tax under section 501(c)(2) of the Code may retain part of its income each year to apply to indebtedness on property to which it holds title.

'All of the corporation's stock is owned by an organization exempt from Federal income tax under section 501(a) of the Code.

By agreement with the parent, the corporation retains a part of income each year and applies it to the indebtedness it has incurred on the property to which it holds title.

'Section 1.501(c)(2)-1(b) of the Income Tax Regulations provides that a corporation described in section 501(c)(2) of the Code cannot accumulate income and retain its exemption but must turn over the entire amount of such income, less expenses, to an organization which is itself exempt from tax under section 501(a). In view of this requirement, a question arises whether an organization exempt under section 501(c)(2) may make payments out of income to reduce the indebtedness on its property.

The title holding corporation is by its nature responsive to the needs and purposes of its exempt parent which established it mainly to facilitate the administration of properties. If it must remit all of its net income to the parent every year, it will have no funds with which to meet its own indebtedness. Rather, it will have to turn repeatedly to the parent for additional contributions to its capital, or the parent will have to make direct payments on the indebtedness of the subsidiary. Thus, the subsidiary will be restricted in serving the needs of the parent in connection with the administration of properties.

Thus, under the circumstances described, the title holding corporation may retain part of its income each year to apply to indebtedness on property to which it holds title. The transaction will be treated as if the income had been turned over to the parent and the latter had used such income to make a contribution to the capital of the title holding corporation which, in turn, applied such contribution to the indebtedness.

'Rev. Rul. 67-104 is superseded with respect to the position under section 501(c)(2) of the Code, since the position set forth therein is restated in this Revenue Ruling. It is obsolete with respect to the position set forth under section 504 of the Code, since that section was repealed for taxable years beginning after December 31, 1969, by the Tax Reform Act of 1969, section 101(j)(15), 1969-3 C.B. 32.